WESTERN MASSACHUSETTS ELECTRIC COMPANY
FORMULA FOR CALCULATING TRANSITION CHARGES

A. INTRODUCTION

A critical component of WMECO's ability to unbundle its rates to provide for retail access is the development of the transition charge. This Exhibit describes the methodology that WMECO will use both before and after divestiture and securitization, and presents the schedules that show the cost-based calculation of WMECO's transition charge that will be in effect beginning March 1, 1998 until the date of divestiture of WMECO's non-nuclear generating plants and securitization as described in the Plan and proposed modifications filed on December 31, 1997 and May 15, 1998, respectively.

Exhibit 13C, Schedule 1, filed on July 2, 1998, reflects a weighted transition charge of 3.18 cents per kilowatt-hour (kWh) for the period March 1, 1998 through December 31, 1998. This level is the net result of unbundling WMECO's rates after reflecting the 10 percent rate reduction on March 1 in accordance with the Act and an additional rate reduction on July 1, 1998 as proposed by the Company in its Plan modifications on May 15, 1998. To produce the required transition charge of approximately 3.18 cents per kWh, it was necessary for WMECO to adjust its cost-based transition charge by using a return on equity for computing carrying costs on transition costs of 6.5 percent. Schedule 1, pages 1 through 14 illustrates the derivation of the 3.18 cents per kwh access charge using a return on equity of 6.5 percent.

As discussed in Section II of the Plan, filed on December 31, 1997, WMECO must maintain a sound financial condition in order to effectively carry out its responsibilities as a delivery company under restructuring. However, the return on equity of 6.5 percent would result in WMECO earning a substandard return and financial difficulties for WMECO in the near future unless relief is obtained. In its Plan, WMECO anticipates relief as a result of expeditious divestiture of its generating units and securitization of transition costs, and it does not request relief under the "hardship" provision of the Restructuring Act (SECTION 193 - Section 1B(b), Section 1G©(3)). WMECO further proposes a mechanism in Section B.1.3, below, consistent with that proposed by other electric companies which provides additional recognition of the necessity of maintaining a sound financial position.

B. TRANSITION CHARGE CALCULATION

The Company is providing a schedule (Exhibit 13C) which details the calculation of the Transition Charge. Following is a description of the calculation for both the Fixed and Variable components of the Transition Charge. Page references are applicable to Schedule 1. The Fixed Component is described below in Section 1.1 and the Variable Component is described in Section 1.2.

1.1 The Fixed Component of the Transition Charge, as shown on Page 2, shall include the return of and on the unrecovered costs of generation-related investments and regulatory assets of WMECO. This Fixed Component consists of the following:

1.1.1 Revenues sufficient to amortize over a period commencing on March 1, 1998, and continuing for a period ending no later than December 31, 2009[1], the following plant balances and regulatory assets:

(a) Plant balances shall include the unrecovered net book value, as shown on Page 5, Column (D), of the following generation-related investments as of March 1, 1998 excluding capital additions authorized after December 31, 1995, but including expenditures committed to prior to that date:

(i) Fossil Fuel Units;

(ii) Hydroelectric Units;

(iii) WMECO's ownership share of Millstone 1, Millstone 2 and

Millstone 3;

(iv) General Plant allocated to generation, and

(i) Generator leads.

[1] During the period between March 1, 1998 and the completion of divestiture and securitization fossil/hydro and nuclear plant balances will be depreciated over the current remaining book lives.

(b) Net Regulatory Assets shall include the generation-related unrecovered net book balances shown on Page 6, Column (B), as of March 1, 1998:

(i) Department of Energy (DOE) Decontamination and Decommissioning (D&D) reflects WMECO's share of costs that, as a result of the Energy Policy Act of 1992, were assessed by the DOE for the decontamination and decommissioning of uranium enrichment plants operated by the DOE. WMECO believes this assessment is recoverable from customers and is properly recorded as a regulatory asset. The Department was notified of our treatment of D&D expenses for the Millstone Units in D.P.U. 93-8D.

(ii) Unrecovered Deferred Nuclear Outage expenses reflects the unamortized balance of deferred nuclear outage costs which have been deferred for accounting purposes pursuant to the Department's order in D.P.U. 85-270.

(vii) Net-of-Tax Debt AFUDC adjustment for non-Millstone 3 plant represents the unrecovered balance of the net-of-tax AFUDC adjustment for the change in Federal income tax rate from 45% to 34% in 1987. The net-of-tax AFUDC adjustment for non-Millstone 3 plant was allowed to be recovered over the average remaining plant lives in D.P.U. 87-260.

(i) Accelerated FAS 109 represents unrecovered deferred income taxes which the Company has received payment prior to the tax payment date due to the settlement in Docket 94-8C, et. al, approved on April 30, 1996.

(ii) Deferred Pension expense balance reflects an estimated generation-related portion of the deferred pension expense balance which has been included as a liability in the transition charge calculation.

(vii) Deferred Fuel balance reflects the estimated balance of unrecovered costs associated with the operation of WMECO's fuel clause. These costs are associated with the first four months of the current Fuel Adjustment Clause (FAC) billing period (September through December 1997) and a reconciliation of the unrecovered FAC balance of fuel expense as of August 31, 1997, net of all replacement power costs associated with the outages of the Millstone generating units for which WMECO is not seeking recovery. The recovery of Millstone replacement power costs is not being requested. The under-recovery of fuel expense in the current FAC billing period is due mainly to lower actual NUG&T credits versus those forecasted in D.P.U. 97-8C.

(i) FAS 109 reflects the regulatory asset associated with the recognition of additional deferred taxes determined under SFAS No. 109, Accounting for Income Taxes (dated April 23, 1993), adopted in 1993.

(ii) Unamortized FAS 106 Transition Obligation reflects the estimated generation-related obligation incurred under the Company's Post-Retirement Benefit Other Than Pension Plans, at the time of adoption of FAS 106.

(vii) Accumulated Deferred Investment Tax Credit reflects the portion of the deferred investment tax credit balance related to generation and has been included as a liability in the transition charge calculation.

(viii) Unrecovered Prior Spent Nuclear Fuel reflects the one-time fee plus interest owed to the DOE for the disposal of nuclear fuel used to generate electricity before April 7, 1983 per the Nuclear Waste Policy Act of 1982.

Each item described above will be adjusted as appropriate upon divestiture of related generation assets.

1.1.2 Revenues sufficient to provide an overall return including taxes, based on a combined state and federal income tax rate of 40.6059 percent,[2] on WMECO's 1995 average year-end capital structure as shown on Schedule 1, Page 12, including a return on equity, multiplied by the average of the beginning and ending balances in each calendar year, beginning in the year of the Retail Access Date, of the sum of the following:

(a) Unrecovered net book value of generation investments as defined under 1.1.1(a) above; plus

(b) Unrecovered net book value of those net generation-related Regulatory Assets that have associated carrying costs as defined under 1.1.1(b) above; less

(c) Deferred Taxes, as shown on Page 11, Column (X), equal to the combined state and federal income tax rate of 40.6059 percent, multiplied by the sum of:

(i) The unrecovered net book value of generation investments, as shown on Page 11, Columns (O through R), plus

(ii) The unrecovered net book value of generation-related Regulatory Assets, as shown on Page 11, Column (N), less

(iii) The unrecovered balance of generation investments for tax purposes, as shown on Page 11, Column (T), plus

(iv) The spent fuel tax basis, as shown on Page 11, Column U. The Unrecovered Prior Spent Nuclear Fuel reflects the tax-effect of the

[2] Combined state and federal income tax rate of 40.6059 percent currently in effect but subject to changes in the statutory tax rates, or newly imposed taxes, that would otherwise affect the actual taxes paid by WMECO.

portion of the one-time fee plus interest owed to the DOE for the disposal of nuclear fuel used to generate electricity before April 7, 1983 per the Nuclear Waste Policy Act of 1982.

The return on equity used for the period from March 1, 1998 until divestiture and securitization (which for illustrative purposes has been assumed to be January 1, 1999 in Schedule 1) is 6.5 percent. WMECO will use a return on equity of 12.00 percent for the period after divestiture and securitization.

1.1.3 The Fixed Components shall be subject to the following adjustments:

(a) WMECO shall reconcile, for each of the following items, the balances estimated, as of the date indicated in Section 1.1.1(b), with the actual balances at the date of divestiture, and shall include any such difference and associated return, if applicable, in the Reconciliation Account:

(i) The accumulated post-retirement benefit obligation associated with the FAS 106 transition obligation,[3] and

(ii) The FAS 109 regulatory asset/liability

(i) Accumulated Deferred Investment Tax Credit.

(b) As described in the Company's December 31, 1997 Plan and as modified by the Company on May 15, 1998, WMECO will divest its non-nuclear generating assets. Within three months after the completion of each divestiture, WMECO shall implement a Residual Value Credit as a direct offset to the Transition Charge authorized under this Agreement. The Residual Value Credit shall be calculated as follows:

(i) Total proceeds equal to the sale price received by WMECO, adjusted for taxes; less

[3] The return associated with the FAS 106 transition obligation shall be equal to the interest rate reflected in the actuarial analysis.

(ii) Any revenues lost by WMECO between the Retail Access Date and the divestiture date, measured by the difference between the unit's revenues that WMECO would have collected from the fully allocated (e.g., including A&G) generation portion of the most recently Department approved rates and the unit's market revenues plus any Transition Charge revenues related to the unit sold; less

(iii) WMECO's capital additions committed after December 31, 1995, demonstrated to be prudently incurred, excluded from the plant balances in Section 1.1.1(a) above; less

(iv) The book value of any fuel inventory and materials and supplies that have been included as consideration in the sale proceeds in Sections 1.1.3(b)(i); less

(v) Reasonable transaction costs associated with the market valuation and divestiture, including the cost of refinancings.

The Net Proceeds from the divestiture including amortization and the pre-tax return specified in Section 1.1.2 on the unreturned credit balance net of tax impacts shall be credited to the Fixed Component in equal annual amounts over the period commencing on the date the Residual Value Credit is implemented through December 31, 2009 or be used to reduce the amortization period.

1.1.4 At the time of securitization, those assets that have been designated as transition costs to be securitized will no longer be recovered as provided for above. Instead, the full costs of the rate reduction bonds will be included in the Fixed Component, described below.

1.2 The Variable Component of the Transition Charge shall include WMECO's share of the items specified in Section 1.2.3 below, adjusted for the Reconciliation Account discussed in Section 1.2.1.

1.2.1 The Variable Component shall be adjusted through a Reconciliation Adjustment in which differences, whether positive or negative, between WMECO's estimated variable costs listed in Section 1.2.3 below and the actual variable costs will be accumulated in a Reconciliation Account and added to or subtracted from the Transition Charge. The Reconciliation Account shall also include the adjustments, if any, under Section 1.1.3(a) above, caused by a deferral in the Retail Access Date and under Section 1.1.3(b) above, for the reconciliations of FAS 106, FAS 109, and Accumulated Deferred ITC. A return equal to that specified in Section 1.1.2 shall be included on any balance in the Reconciliation Account, whether positive or negative. The Reconciliation Account shall also include adjustments to provide for recovery of equity return foregone as a result of WMECO setting a transition charge consistent with the Act (such adjustment shall be calculated to produce sufficient revenues that would recover previously foregone equity returns that were below that which was last allowed for WMECO).

The Reconciliation Account shall accumulate and shall be used to adjust the Base Transition Charge on an annual basis as allowable under the parameters of the rate cap set forth in the Act. Thus, beginning September 1, 1999 WMECO shall return or collect any outstanding balance in the Reconciliation Account by implementing an adjustment to the Base Transition Charge. Thereafter, the balance including the accumulated return in the Reconciliation Account at the end of a year shall be used to adjust WMECO's Base Transition Charge for the following year. Any deferrals caused by the limitation of the rate cap or legislatively mandated decreases to rates shall be carried forward with a return into the next annual adjustment to the Base Transition Charge.

1.2.2 Once securitization of all or a portion of WMECO's transition costs occurs, WMECO will include as a separate element of the Variable Component a fully reconciling charge for the costs of the rate reduction bonds.

1.2.3 WMECO's specific cost items included in the Variable Component are set forth on Page 3 of Exhibit 13C. The difference between WMECO's actual variable costs and the estimated variable costs in this section shall be included in the Reconciliation Account. The Variable Component shall include the following costs:

(a) Nuclear Decommissioning and any Related Post-shutdown Obligations will include costs charged to WMECO by the operators of each nuclear generating facility specified in Page 8, including the following:

(i) Nuclear Decommissioning will be all costs charged to WMECO subject to the regulatory authority of the agencies having jurisdiction over the operation and collection of such funds. The decommissioning funds will be placed in irrevocable trusts in accordance with Nuclear Regulatory Commission regulations. If, upon the completion of decommissioning for any of the above listed nuclear generating facilities, it is determined that there has been an over collection of funds, such over collection will be transferred to WMECO's share of the decommissioning fund for the last remaining undecommissioned plant pending final disposition of its decommissioning. Once all decommissioning is complete, any over collection by WMECO will be refunded through the Reconciliation Adjustment.

(ii) Nuclear Costs Independent of Operations will be WMECO's share of all charges for the ongoing operation and maintenance of the units and sites, other than Nuclear Decommissioning and Federal Decontamination and Decommissioning, assessed by the operators of each nuclear generating facility, after a vote by the board of directors of the owners of each unit to permanently shut down the unit prior to its scheduled retirement date.

(b) Above Market payments to Power Suppliers shall include all payments by WMECO under Long-Term Power Supply Contracts in place as of December 31, 1995, between WMECO and a third-party supplier, continuing to the termination date of each contract, less the market value of those contracts, as shown in Page 3, columns (C) through (E). The Long-Term Supply Contracts include:

(i) Masspower,

(ii) Springfield Resource,

(iii) Connecticut Yankee,

(iv) Vermont Yankee,

(v) Maine Yankee,

(vi) Yankee Atomic Energy Company

(i) Hydro Quebec

(c) As proposed in the Company's May 15, 1998 amended plan, WMECO will treat Northfield Mountain Pumped Storage, Cabot Hydro and Turners Falls Hydro as a purchased power contract until such time that these facilities are divested which is anticipated on or before 1/1/2000.

(d) Any future economic buy-out or buy-down payments, including any net savings resulting from Securitization, will be deemed reasonable payments by WMECO associated with the early termination of Long-Term Power Supply Contracts or costs incurred to reduce payments under those contracts as shown on Page 3, Column (F).

(e) Any future Above-Market Fuel Transportation incurred by WMECO will be shown on Page 3, Column (G), and would represent WMECO's share of any continuing long-term payment obligations associated with fuel transportation costs less any Market Value associated with the obligation.

(f) Any future Employee Severance and Retraining, will be shown on Page 3, column (I), and will include all reasonable costs and expenses incurred by WMECO associated with the implementation of retail access or divestiture including, but not limited to, early retirement, severance, retraining, and other reasonable costs. For the purposes of calculating the Base Transition Charge and the estimate included in the Reconciliation Account, the Employee Severance and Retraining Costs are initially assumed to be zero.

(g) Payments in Lieu of Property Taxes, as shown on Page 3, Column (J), will include all reasonable costs incurred by WMECO, or its affiliates, associated with payments in lieu of property taxes to the cities and towns in which WMECO owns generating facilities or a portion of generating facilities to mitigate the loss of tax revenues that those cities and towns would otherwise incur in connection with restructuring.

(h) Damages, Costs, or Net Recoveries from claims by or against third parties, or required to be undertaken under state or federal law, as shown on Page 3, Column (K), shall include all damages, costs, or recoveries associated with the generating business of WMECO, or its affiliates, which accrued prior to the date of divestiture and which were not recovered from their insurance carriers.

(i) WMECO proposes a transition period during which the transition charge include Performance Based Rates for Millstone 1, 2, and 3. The transition period will commence upon termination of the NUG&T and end upon divestiture of each indicated nuclear unit. Column (L), Performance Based Rates, will be calculated as follows:

Revenue from the sale of the Millstone plants' capacity and energy produced will be reduced by total reasonable operating costs including return of and on capital additions incurred after December 31, 1995 on a cost-of-service basis not otherwise recovered in the transition charge as described herein.

For a given year, 25 percent of the revenue in excess of expenses will be refunded to customers by means of a credit to the transition charge in the subsequent year.

To the extent that expenses are in excess of revenue, 25 percent of that amount will be collected through a charge to the transition rate in the subsequent year.

Calculation of revenue and expenses for purposes of measuring nuclear performance based rates will be done on a unit-by-unit basis for Millstones 1, 2, and 3. Such calculation for a particular unit will not commence until that unit is deemed “in-service.” A unit is deemed to be in-service if it is synchronized with and providing power to the grid.

(j) Unavoidable Nuclear Costs - Certain costs associated with the ownership of nuclear power generation are unavoidable. Upon divestiture of WMECO’s non-nuclear facilities these costs will be included on Page 3, Column (M). These unavoidable costs will remain until divestiture of the nuclear facilities which is anticipated to be on or before 1/1/2004 and/or whether the plant operates through its license life or not and will include property taxes, NRC fees, insurance, the cost of site and plant security requirements, regulatory compliance costs and interest on prior spent nuclear fuel.

For the purposes of calculating the Transition Charge, columns F, G, H, I, J, and K, as described have been assumed to be zero.

(k) Generation Operating Costs - As described in Section III of the Company's Plan, until WMECO can resolve issues related to the NUG&T and divestiture of it's non-nuclear generating facilities, WMECO proposes that supply for Standard Service and Default Service will be provided by the NU system resources, as provided for under the NUG&T. During this interim period WMECO's transition charge will be cost based to include the benefits of the NUG&T and the operating costs associated with supplying Standard Service. The net costs associated with the aforementioned is included in Column (N) on page 3.

(l) Standard Offer Deferral Estimate, Page 3 Column O, reflects the deferral between the retail market price and the standard service rate for the period 2003 and 2004, which would reduce the transition charge.

(m) End of Life Material and Supplies, Page 3 Column P, reflects the annual amount that WMECO is currently collecting in rates for estimated end of life materials and supplies for its nuclear units. This amount was allowed in rates beginning in July of 1990 and WMECO has reflected the continued collection of this item until divestiture of the nuclear units which is anticipated to be no later than 1/1/2004. Page 11, Materials and Supplies, reflects the balance of the collection for which WMECO has provided a credit return on at the overall weighted cost of capital as shown on Page 12.

1.3 To the extent that WMECO's actual return on equity on its distribution and transition costs falls below 6 percent, WMECO will be allowed to petition the Department for relief sufficient to enable it to restore its return on equity to at least 6 percent, first through rate changes consistent with the rate caps, and second, through other means proposed to the Department by WMECO. For purposes of this earnings test, WMECO will exclude the effects of the nuclear performance based ratemaking mechanism described in Section IV.B.1 of the Plan, and the effects of the recovery mechanism proposed for reconciliation of foregone returns indicated in paragraph 1.2.1.